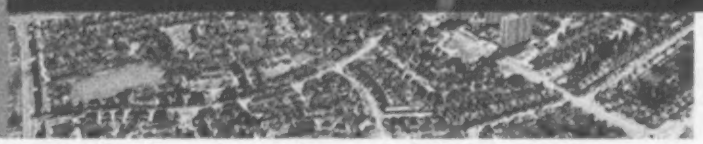
HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Ottawa[1]



Canada Mortgage and Housing Corporation

Date Released: Spring 2008

New Home Market

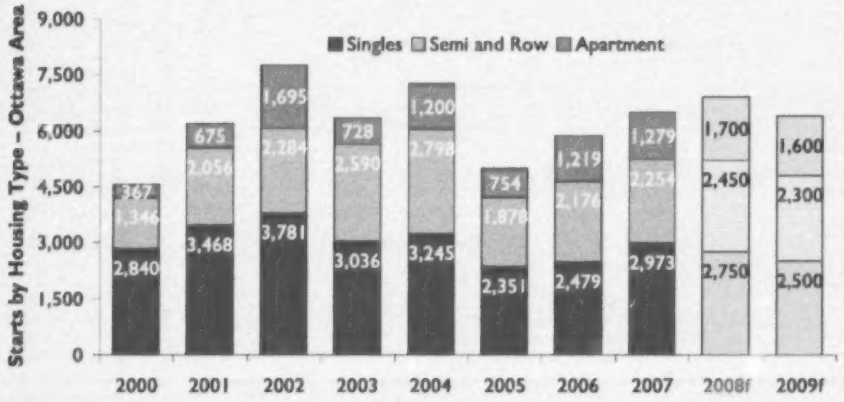
Higher Level of Construction Activity Expected in 2008

Total housing starts in the new home market achieved a 3 year high of 6,506 units in 2007, while the median price for a new single-family home increased by almost 4 per cent to reach $364,900. In 2008, the new home market in the Ottawa Census Metropolitan area will show even stronger activity, reaching a total of 6,900 starts, 6 per cent higher than the previous year.

New home sales during the first three months of 2008 were already 6.5 per cent higher that in the same period last year, accounting for a total

Figure 1

Condominium Construction Taking the Lead in Ottawa



Source: CMHC; f - CMHC forecasts

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[1] Ontario part of Ottawa-Gatineau CMA

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of 1,432 units sold.[2] These high numbers, along with expected job growth, will maintain housing demand in the Capital City in 2008. However, expected slower job growth next year combined with increased carrying costs will result in a decrease of housing starts by 7 per cent.

Single Family Homes Decrease their Market Share of Total Starts

Single Family Detached starts are expected to decrease by 8 per cent by the end of the year, attaining 2,750 units, while their median price will surpass $375,000, 3 per cent higher than 2007. The Market Share for this type of dwelling will decrease from a 45 per cent average over the last five years to a more modest 39 per cent. Rising prices will push mortgage carrying costs further up and will have an impact on the demand for new homes for first-time buyers, as they seek more affordable dwellings.

In 2007, the regions of Nepean and Goulbourn posted the biggest starts in single-family homes. Nepean alone witnessed an increase of 7 percent or 577 new single-detached starts. For the first three months of the year it was Kanata and again Goulbourn that had the healthiest increase in this type of housing and this is the trend that we are going to continue to observe throughout 2008. Most of the single-detached starts in Ottawa have taken place further from the Downtown core. As in other big CMA's, this type of construction does not take place near the core where the high price of land promotes high density construction.

Firm Demand for New Condominium Apartments in 2008

After a decade of almost no condominium apartment construction, this market segment picked up momentum in 2002 soon after the IT sector recovered in Ottawa. The condominium apartment market is composed in great part by young professionals with high incomes and baby boomers demanding housing in the inner-city residential areas, closer to amenities. As the population ages and the IT sector remains an important part of the Queen City's economy, condominium apartment starts will increase by 33 per cent this year, attaining 1,700 units in 2008. In addition, some buyers will purchase a condominium for investment purposes.

Immigrants and First Time Buyers Drawn towards Townhomes

Townhouse construction almost hit the 2,000 unit mark last year, the highest level since 2004. As affordability continues to erode, particularly among first-time buyers, this type of housing will increase its Market Share to 32 per cent or 2,200 units in 2008. This is a sought-after product since it provides more space than apartments and is less expensive that single-detached homes. Ottawa will receive in average 5,000 new immigrants every year. This segment finds townhomes especially attractive since they require larger housing units due to larger family size, but have not acquired the economic means to buy a single-detached home.

Two areas witnessed the most significant growth in new townhouse construction last year were Nepean and Cumberland, with a Market Share of 23 per cent each. In the first quarter townhouse construction was already 35 per cent higher when compared to the first three months of 2007, and this trend will continue in Nepean and Kanata. Although a little further from the Downtown area, people are willing to drive extra distance in order to buy new row homes at more affordable prices.

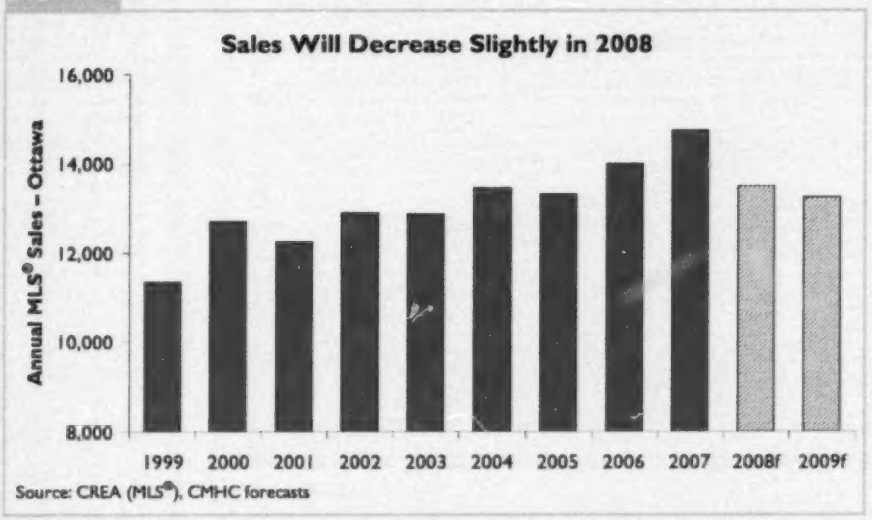
Resale Market

Resale Demand Decreasing in 2008

Ottawa's strong demand in the resale market for both residential freehold and condominium homes last year was driven by healthy employment and relatively low borrowing costs. Despite the all time record performance of the resale market in 2007, it is expected that it will decrease by 8.4 percent to 13,500 transactions by the end of 2008. Harsh weather and consumer uncertainty about the economic situation had played a factor early in 2008 and it is expected that higher carrying costs will keep dampening demand in the resale market this year. However, the number of units resold will still be at a very high level, considering

[2] Corporate Research Group.

Figure 2



By the end of March 2008, some popular sub-markets in Ottawa were showing higher price gains and it is expected that they will continue this trend for the rest of the year. Look for the West End, Orleans and the Downtown core to outperform other areas.

Freehold Low Density and High Density Condominiums Will Diverge

The freehold low density market in Ottawa, that constitutes around 80 per cent of the total market, has been in the sellers' territory for 8 years now; however, this first quarter witnessed the beginning of this market's entrance into the balanced territory, when the sales-to-new-listings ratio dropped to 49 per cent. Although the price increases for the first three months still showing healthy increases for most housing types, this is most likely due to the momentum after several years of increasing growth in prices.

that the average number of transactions in the resale market in the last 10 years was 12,700 units.

Prices Still Increasing Above Inflation

The average price for an existing home in the Ottawa CMA closed last year at $273,058. Even after adjusting for inflation, prices had been increasing by an average of 5.5 per cent every year since the turn of the century. It is expected that by the end of the year prices will moderate closer to inflation. Despite a healthy job market, slightly decreasing affordability in the region will result in some potential home buyers deciding to reconsider the purchase of a home. The latest data show that the growth rate in the required income to buy a dwelling has increased in relation to the actual income for the average household.

Market indicators, such as the sales-to-new-listings ratio and the average days on market to sell a home, indicate that the resale market will be moving into the balanced territory this year. The sales-to-new-listings ratio is an indicator that measures the temperature of the market as well as indicating the price trend. As sales continue to moderate and listings continue to grow, albeit at a slower rate, the market will move deeper into balance territory. As a result, the prices will increase at a level closer to the inflation rate by the end of this year.

Figure 3

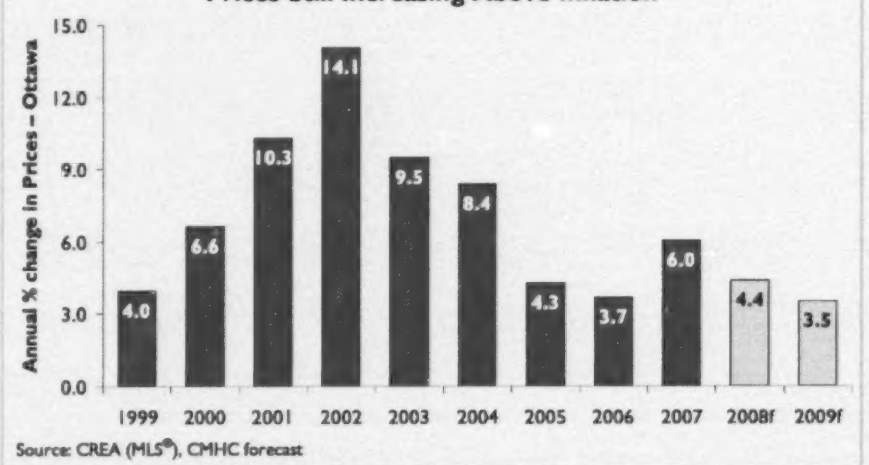
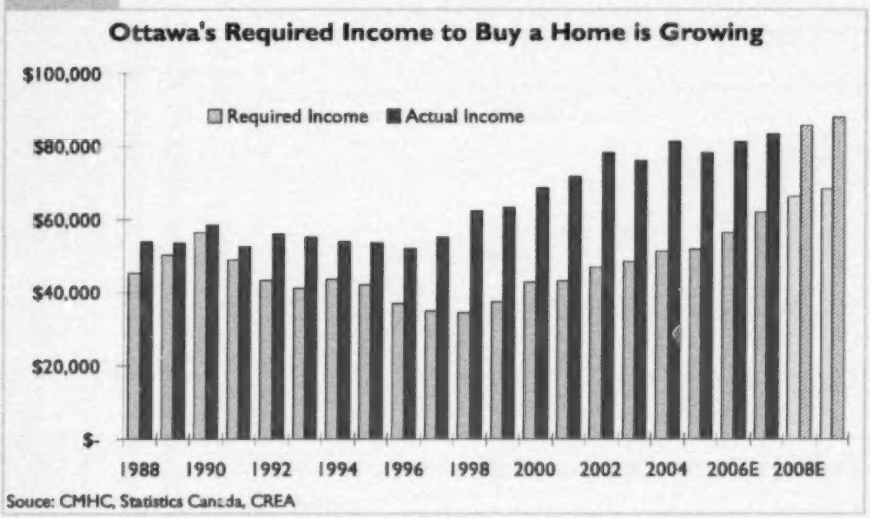


Figure 4



Souce: CMHC, Statistics Canada, CREA

Since 2000, the freehold market has been outperformed by the condominium one. In particular, condominium apartment unit prices, which constitute 50 per cent of total condominium dwellings, grew by 8.2 per cent in the last quarter when compared with the first three months a year earlier. It is expected that this process will continue into 2008 since the latter is traditionally a more affordable housing option and is in demand by young professionals. The 65 per cent sales-to-new-listings ratio confirms that this market is still deep into the sellers' territory and therefore its prices are going to continue increasing as there is more demand than supply.

Economic Overview

Public Administration Will Buffer Against Slower Economic Growth

Although the job market in the Ottawa CMA has increased by 30 per cent in the last twelve years reaching almost 500,000 persons employed, it will cool down slightly this year. Job growth will increase by 1.4 per cent in 2008 before slowing down to 0.8 per cent in 2009. Despite uncertainty due to slow economic growth in the US, consumer confidence as measured by increasing domestic demand will stay stable. Weaker labour market in Ontario will have a gentler effect in Ottawa as government spending traditionally spills into Ottawa's economy by fuelling public sector employment. The public sector will keep providing the Capital City's economy with a strong support. Some of the federal government's main priorities – health care and climate change- will continue providing a good base of Ottawa's economy.

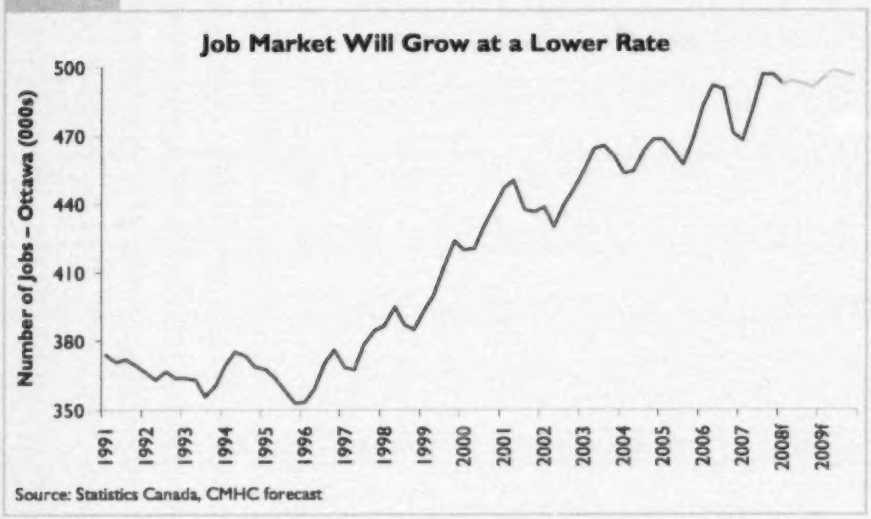
The participation rate in the first quarter of 2008 increased by 3.6 per cent when compared to the first quarter of 2007. Following the same trend, the labour force increased by 3 per cent in the last year and is expected to reach almost the 519 thousand persons in 2008. Consequently, unemployment rate will observe a slight decrease to 5 per cent by the end of this year.

The High-Tech sector, one of the biggest employers in Ottawa experienced a slight decrease in employment in the first quarter of 2008. The decrease in growth of global investment spending due to the US economic downturn had decreased the High-tech manufacturer's production and will continue in a slight downward trend until the end of 2008. Even though the services side of the economy showed healthy increases in the first quarter of 2008, the recent closure of the Dell Canada call centre posted a negative note. Although, these job losses only represent a decrease of one per cent of the total High Tech industry in Ottawa, it sets a precedent in the view of many persons in Ottawa and it will undermine consumer confidence.

International Immigration Fuelling Population Growth

According to Statistics Canada, Canada's population grew by 5.4 per cent between the 2001 and 2006. International immigrants contributed with two-thirds of the total growth. Net immigration may become the only source of growth by the year 2030 across the country as births will equal deaths. In the case of Ottawa, the story is very similar. The Capital City will receive an average of 5,000 immigrants representing half of the total migrants to the area. The forecasts for the next years points towards an increase in the percentage of foreign-born migrants. Of the actual 22 per cent of foreign born population in the Queen City, it is

Figure 5



expected that by the year 2010, it will increase closer to 24 per cent or 208,000 persons.

Since the turn of the century, the IT sector of Ottawa's economy has been attracting highly educated immigrants and according to the latest numbers it has the highest proportion of university educated immigrants in the country. The People's Republic of Chine, India and the U.S. were the top three countries of birth among the new immigrants in Ottawa-Gatineau (12.7, 4.6 and 4.2 per cent respectively). Traditionally immigrants from the Far East prefer high density dwellings and combined with high incomes, could point towards increasing demand for condominium apartments in the next years.

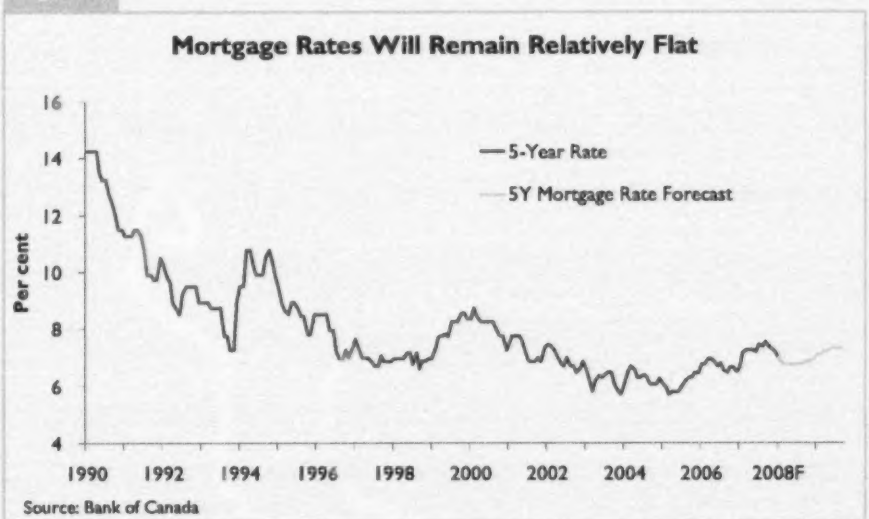
The population growth rate for Gatineau outpaced that of Ottawa by 3.5 percentage points between the last two censuses. In particular, the Gatineau area increased their share of new immigrants to 15.2% in 2006 and Ottawa's share of new immigrants dropped from 90 to 85 per cent. The decreasing trend in this rate for the Ottawa region will continue in the next years as dwellings on the Quebec side are on average 30 per cent more affordable.

Population in Ottawa CMA is expected to continue increasing by an annual 1.2 per cent, reaching 887,000 persons in 2010.

Mortgage Rates Will Remain Relatively Flat

Posted mortgage rates eased by about 50 basis points in the first four months of this year, although rates in late April were 30 to 35 basis points higher than they were 12 months prior. Mortgage rates are expected to trend marginally lower throughout 2008, but will be within 25-50 basis points of their current levels. For 2009, posted mortgage rates will begin to drift up slightly as the year progresses. For 2008 and 2009, the one-year posted mortgage rate is forecast to be in the 6.50-7.50 per cent range, while three and five-year posted mortgage rates are forecast to be in the 6.75-7.50 per cent range.

Figure 6



Forecast Summary Ottawa CMA Spring 2008	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	13,300	14,003	14,739	13,500	-8.4	13,250	-1.9
MLS® Average Price ($)	248,358	257,481	273,058	285,000	4.4	295,000	3.5
New Home Market							
Starts:							
Single-Detached	2,350	2,480	2,973	2,750	-7.5	2,500	-9.1
Multiples	2,632	3,395	3,533	4,150	17.5	3,900	-6.0
Semi-Detached	300	383	300	250	-16.7	200	-20.0
Row/Townhouse	1,578	1,793	1,954	2,200	12.6	2,100	-4.5
Apartments	754	1,219	1,279	1,700	32.9	1,600	-5.9
Starts - Total	4,982	5,875	6,506	6,900	6.1	6,400	-7.2
New Housing Price Index (% chg) (Ottawa-Gatineau)	4.6	3.1	1.8	1.6	-	1.7	-
Rental Market							
October Vacancy Rate (%)	3.3	2.3	2.3	2.0	-0.3	1.7	-0.3
Two-bedroom Average Rent (October) ($)	920	941	961	980	2.0	1,000	2.0
Economic Overview							
Mortgage Rate (1 year) (%)	5.80	6.30	7.35	6.95	-0.40	6.83	-0.12
Mortgage Rate (5 year) (%)	6.30	6.45	7.54	7.01	-0.53	6.97	-0.04
Annual Employment Level	464,300	483,100	488,200	493,000	1.0	497,000	0.8
Employment Growth (%)	0.6	4.0	1.1	1.0	-	0.8	-
Unemployment rate (%)	6.6	5.1	5.1	5.0	-	4.8	-
Net Migration [1]	4,434	-725	1,000	2,675	-	2,425	-

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2007 migration data is forecasted

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